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Tax-Free Education:

A Study Guide

Online options for schools have exploded in the wake of the pandemic. If you're looking to expand your mind as you finish out your quarantine year, consider heading back to the virtual classroom. Or perhaps you've been hoping to help a family member with their education expenses. Each one of these non-traditional learning routes can come with tax benefits.

For Your Career: Ready to hit the books again? It's a great way to upskill or refresh your expertise. There are several ways to fund these pursuits: You may be able to pull tax-free dollars from an IRA or a state 529 plan, and there are tax credits available through the American opportunity tax credit (AOTC) and the lifetime learning credit (LLC). But you might need to jump through some hoops to qualify for each. For example, the educational expenses must be paid to a qualified educational institution 1) for the purpose of getting a degree or other recognized education credential, or 2) to get or improve job skills. You also need to choose which credit to take — AOTC or LLC — because double benefits aren't allowed.

For Yourself: An increasing number of adults and retirees are heading back to school to learn about subjects that interest them or to immerse themselves in hobbies and interests. These types of endeavors don't usually qualify for the IRS allowances and credits listed above. However, colleges and universities often offer reduced-price or even free classes for those of retirement age. And remember that if your hobby or interest makes money — you're selling baked goods regularly or have backorders for homemade furniture, for instance — you may want to consider turning it into a tax-advantaged business, which can help convert those casual education expenses back into tax deductions.

For Your Family: Education is a huge expense for many young families, which means some grandparents want to help out however they can. The IRS is on board with many of the same allowances we list above. AOTC or LLC credits usually aren't given unless the child is your dependent, but you may still be able to take tax-free distributions of retirement funds or contribute to and/or distribute from 529 education funds for child and grandchild education expenses. And you might not even want to wait until college to start helping out. Right now, the federal government and the State of Texas allow 529 savings plan funds to be used for private K-12 tuition as well (but beware: some states outside of Texas will penalize you).



The IRS offers a resource center with more information about education credits. Search "IRS Benefits for Education" online to find it. You can also complete a quick online questionnaire through the IRS Interactive Tax Assistant to help determine tax credit eligibility, which is available at irs.gov/help/ita.

A lifelong pursuit of knowledge is a beautiful thing. Make those dollars you spend on education go as far as possible.

Steven Bankler has more than 43 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely-held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations, and estate planning. Visit www.bankler.com for additional tax strategy tips and to learn more about Steven Bankler, CPA, Ltd.

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